REBUTTAL TESTIMONY OF
PRABIR PUROHIT
ON BEHALF OF
DOMINION ENERGY, INC.
DOCKET NO. 2017-370-E

Q. PLEASE STATE YOUR FULL NAME, BUSINESS ADDRESS, AND OCCUPATION.

A. My name is Prabir Purohit and my business address is 120 Tredegar Street, Richmond, Virginia 23219. I am the Director of Mergers and Acquisitions and Financial Analysis at Dominion Energy, Inc. ("Dominion Energy").

Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I earned a bachelor's degree in Aerospace Engineering from the Indian Institute of Technology, a master's degree in Aerospace Engineering from Iowa State University, and a Masters of Business Administration from the Goizueta School of Business at Emory University. I have over 17 years of experience in the power and utility industry specifically related to corporate finance, capital markets, and mergers and acquisitions. I started my career at Mirant Corporation, an independent power producer, in Atlanta where I was involved in business planning and evaluation of power generating assets. Subsequently, I moved to Merrill Lynch and later Bank of America where I focused on investment banking covering the power and utility space globally. I have worked with a significant number of power and utility companies in the U.S. and globally advising on strategic M&A and capital markets financings. I joined Dominion Energy in 2016 and have been in my current role since July 2018.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to respond to specific aspects of the South Carolina Office of Regulatory Staff's ("ORS") alternative rate proposal, the "ORS Plan." Witness James I. Warren will address certain tax matters related to the ORS Plan.

Q. PLEASE PROVIDE A BRIEF OVERVIEW OF THE CUSTOMER BENEFITS PLAN.

A. As a condition of the merger, Dominion Energy and SCE&G are requesting Commission approval of a customer benefit and cost recovery plan for the new nuclear development costs associated with the V.C. Summer Units 2 & 3 project (the "NND Project"), referenced in the Joint Petition as the Customer Benefits Plan.

The Customer Benefits Plan includes an up-front, one-time rate credit to SCE&G's customers totaling $1.3 billion, which translates to an estimated $1,000 per residential electric customer on average, and significantly more for larger (in terms of usage) consumers in the residential, commercial, and industrial customer classes. In addition, the regulatory liabilities representing the change in the gross-up factor and the 2018 amortization of excess deferred income taxes ("EDIT") associated with the reduction in the federal income tax rate under the 2017 Tax Cuts and Jobs Act ("TCJA") will be provided to customers as a one-time rate credit. After the merger, SCE&G will exclude from rate recovery in total approximately $1.4 billion in NND Project costs and approximately $361 million in regulatory assets related to the NND Project, removing any future customer obligation for these costs. Dominion Energy will further underwrite a $575 million refund pool for SCE&G to use to refund amounts previously collected for the NND Project that, along with the benefit of recent federal income tax reform, will allow SCE&G to provide a bill reduction that is estimated to total approximately 7% relative to May 2017 levels for a typical residential bill.[1] The refund pool is required to keep the NND Project portion of the bill at that level for approximately eight years, after which the NND Project portion of the bill naturally reduces as a result of rate base reduction through the 20-year amortization. As discussed by Company Witness Warren, the NND Project rate base will be adjusted for certain deferred income taxes. Further, the acquisition cost of the partial replacement generation capacity for the NND Project—a $180 million investment in the gas-fired Columbia Energy Center—will be absorbed by Dominion Energy shareholders and not collected in rates. Finally, to further ensure rate stability, other than the adjustments described in the Joint Petition and my testimony, the Parties agree to freeze retail electric base rates—the non-fuel related and non-NND Project portion of rates—until at least January 1, 2021.

[1] Residential customers using 1,000 kWh/month.

Q. AS RELATED TO THE $1.3 BILLION UP-FRONT, ONE-TIME RATE CREDIT, DOES DOMINION ENERGY AGREE WITH THE ORS'S RECOMMENDATION THAT SCE&G USE DATA FROM 2017 FOR ITS RATE CREDIT CALCULATION METHODOLOGY?

A. As further described by SCE&G Witness Allen Rooks, Dominion Energy concurs with the ORS that using 2017 firm peak demand represents a reasonable approach to allocate the one-time rate credit. However, Dominion Energy believes that once allocated, the rate credit should then be calculated based on the most recent 12 months of historical kilowatt-hour energy usage available for SCE&G's active customers as of the closing date of the merger.

Q. ORS WITNESS KOLLEN PROPOSES A COST RECOVERY RIDER THAT INCLUDES ALL EFFECTS OF THE TCJA ON THE NND PROJECT COSTS AND REGULATORY LIABILITIES. PLEASE COMMENT ON THIS RECOMMENDATION.

A. Under the Customer Benefits Plan presented in the Joint Application and direct testimony, the NND Project costs would be recovered through the Capital Cost Rider, while the effects of the TCJA on the NND Project would be recovered through a separate NND Tax Rider. Dominion Energy is open – and would prefer – to incorporate the NND Tax Rider in the adopted Capital Cost Rider as recommended by ORS. The NND Tax Rider was proposed as a separate rider for administrative ease in addressing the requirement to file tariff sheets, or revisions thereto, with the Joint Application.

Once a final plan is adopted, updated tariff sheets could be developed to incorporate the TCJA impacts of NND on the Capital Cost Rider.

Q. ORS WITNESS KOLLEN TAKES ISSUE WITH DOMINION ENERGY'S ALLOCATION OF DEDUCTIONS FOR THE NET OPERATING LOSS CARRYFORWARD ("NOLC") DEFERRED TAX ASSET ("DTA"). DO YOU HAVE A RESPONSE?

A. The inclusion of 100% of SCE&G's NOLC DTA under the Customer Benefits Plan is an integral part of a complete proposal and is a key driver that enables the economic value of the transaction. It should not be segregated from the rest of the package. We strongly disagree with ORS's methodology to separate the NOL DTA from the overall economics of the Customer Benefits Plan proposal and the resulting allocation of the NOLC DTA in ORS's proposal. Dominion Energy Witness Warren will address these matters in detail.

Q. PLEASE COMMENT ON ORS WITNESS KOLLEN'S PROPOSED "MERGER SAVINGS RIDER."

A. ORS Witness Kollen recommends a rate reduction of $35 million in the first year and $70 million in the second year and annually thereafter in the form of a Merger Savings Rider for "estimated savings in operating expenses if the Merger is implemented." However, Mr. Kollen provides no valid support for these estimated savings. As every merger is unique, and this one even more so due to the abandonment of the NND Project and associated impacts, I believe an analysis of historical transactions does not provide valid or applicable comparisons.

Furthermore, Mr. Kollen disregards any of the implementation costs that would be incurred, potentially offsetting any savings that may materialize in the first two years. As stated in the Joint Application, Dominion Energy plans to operate SCE&G in substantially the same way as it is currently being operated and intends the merger to be about economic growth in South Carolina, rather than cost reduction. Dominion Energy is committed to maintaining SCE&G's corporate identity, which entails incurring costs related to preservation of its employee financial status, investments, and service levels. As also stated by Company Witness Blue, Dominion Energy will maintain SCE&G's headquarters in Cayce, South Carolina and local control and day-to-day operations will remain with SCE&G in Cayce.

While the acquisition premium (goodwill costs) and many of the transaction and integration costs will not be recorded at SCE&G, for any costs that have to be recorded for Generally Accepted Accounting Principles, the Joint Applicants have committed that SCE&G will not seek recovery of any of these costs associated with the combination from its customers. Although the Parties have not yet determined the amount of such costs, none will be passed on to SCE&G customers. As a result of its larger size and buying power, Dominion Energy does expect to be able, over time, to reduce administrative and operations and maintenance expenses incurred by SCE&G. However, the Joint Applicants have not yet determined the efficiencies that will result after these shared services are combined, and therefore any potential merger savings would not be known and measurable for purposes of setting rates in this proceeding. I would further note that during this initial period – which is the time period ORS recommends to implement its Merger Savings Rider – Dominion Energy anticipates that integration costs are likely to exceed any merger savings. However, as noted above, these costs will be excluded from rate making. As part of its proposal, Dominion Energy has committed to a base electric rate freeze until at least January 1, 2021 at which time any realized savings can be better quantified and passed onto customers during the next rate case. In sum, ORS has not offered any factual basis for its proposal, and it is not supportable.

Q. PLEASE RESPOND TO ORS WITNESS KOLLEN'S RECOMMENDATION FOR RECOVERY OF THE BASELOAD REVIEW ACT ("BLRA") TRANSMISSION COSTS.

A. Mr. Kollen recommends that the Commission terminate the recovery of BLRA transmission costs in present revised rates and instead direct SCE&G to defer the entire BLRA transmission revenue requirement until a subsequent base rate proceeding. This recommendation should be disregarded.

As addressed in the direct testimony of SCE&G Witness J. Wade Richards, the transmission projects that were undertaken as part of the NND Project have been or will be placed in service to meet the demands of SCE&G electric customers. These projects are a necessary part of SCE&G's system and therefore the approximately $32 million of revenue requirement currently associated with the return on a portion of the investments that is currently in rates should remain in rates. As part of the Customer Benefits Plan, this portion of BLRA rates will be transferred from NND rates to SCE&G base rates. The remainder of the capital investment as well as the associated depreciation, operating and maintenance costs, which was previously deferred for recovery, will be deferred for recovery through SCE&G's base rates, which have similar capital structure and return requirements.

Q. PLEASE RESPOND TO ORS WITNESS KOLLEN'S RECOMMENDATIONS THAT THE TOSHIBA PROCEEDS REGULATORY LIABILITY, INCLUDING A RETURN ON THOSE PROCEEDS, BE USED TO REDUCE THE ALLOWED NND COSTS RECOVERABLE THROUGH THE CAPITAL COST RIDER.

A. To ease the burden of the NND Project for customers, Dominion Energy is supporting SCE&G's ability to provide $1.3 billion in up-front rate credits, which will also defease the Toshiba liability. The $1.3 billion up-front rate credit is greater than the amount of the Toshiba liability and the potential return earned on that liability since its receipt. We believe the highest net present value to customers is achieved by returning the cash to customers up-front versus through any other mechanism. It is important to note that, in addition to this up front benefit, the Customer Benefits Plan will also exclude approximately $1.9 billion of capital costs and regulatory assets from recovery and will underwrite $575 million in refunds that, along with the benefit of recent federal income tax reform, will allow SCE&G to provide a bill reduction that is estimated to total approximately 7% relative to May 2017 levels for a typical residential bill.[2]

We also believe that on its own, SCE&G could not provide this up-front benefit to customers. Once SCE&G monetized the liquidated damages payments from Toshiba, it used a large portion of the proceeds to pay down short-term debt that was incurred for the NND Project. Even after paying down debt with the proceeds, the current rate structure and uncertainty regarding future rates has diminished the credit profile of SCE&G to the cusp of junk rated[3] and SCANA to junk rated.[4] As such, as part of the Customer Benefits Plan, Dominion Energy is providing assurances to maintain SCE&G and SCANA's ratings at investment grade through its larger and more diverse balance sheet.

Q. ORS WITNESS KOLLEN STATES THAT THE PROPOSED ONE-TIME REFUND HAS BEEN IGNORED IN THE ANALYSIS OF THE NOLC DTA. DO YOU AGREE WITH THIS ASSERTION?

A. No. As further discussed by Company Witness Warren, ORS Witness Kollen wrongly asserts that the Joint Applicants ignored the effects of the $1.3 billion one-time rate credit in the analysis of the NOLC DTA.

Q. PLEASE COMMENT ON ORS WITNESS KOLLEN'S RECOMMENDATION TO RECOVER NND COSTS ON A LEVELIZED BASIS.

A. We believe that a declining revenue requirement profile, as opposed to a

[2] Residential customers using 1,000 kWh/month.
[3] SCE&G Credit Ratings: BBB-/Baa3.
[4] SCANA Credit Ratings: BBB-/Ba1.

levelized one, is more appropriate because it better matches the regulatory accounting construct for an abandoned asset with a declining rate base. However, to ensure rate stability for customers, Dominion Energy has structured the Customer Benefits Plan such that the $575 million of refunds will provide flat NND bills for approximately eight years. After that time, bills will decline naturally as a result of amortization of the regulatory asset. A levelized structure as recommended by ORS Witness Kollen will deteriorate the near-term economics and damage the credit profile of the Customer Benefits Plan.

Q. DO YOU HAVE ANY COMMENTS ON ORS WITNESS BAUDINO'S ROE RECOMMENDATION FOR ALLOWABLE NND COSTS?

A. Mr. Baudino recommends an ROE of 9.1% be applied to allowable NND costs. The ROE requested under the Customer Benefits Plan is 10.25% for the Capital Cost Rider, fixed for 20 years. This is consistent with the range provided in SCE&G Witness Robert B. Hevert's testimony, and in fact falls at the low end of his range. The cost of debt for the NND Project is to be fixed at 5.85% for 20 years, which is consistent with the last approved BLRA cost of debt in 2016. This fixed cost of capital provides a de-risked approach by fixing the cost of debt and equity over a 20-year period, thus providing bill certainty for customers and also avoiding volatility in interest rates.

Q. THE DEPARTMENT OF DEFENSE ("DOD") RECOMMENDS THAT CUSTOMERS BE GIVEN AN OPTION TO RECEIVE THEIR ONE-TIME RATE CREDIT UNDER THE CUSTOMER BENEFITS PLAN IN THE FORM OF A BILL CREDIT RATHER THAN A CHECK. IS THIS A WORKABLE OPTION?

A. Dominion Energy proposes to issue the one-time rate credit in the form of a check in order to preserve certain credit metrics associated with implementing the Customer Benefits Plan. Therefore, this remains our preferred means to deliver the one-time rate credit to customers.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.